

Soviet Capabilities for Future Trade and Aid

*It has been*  
~~At an earlier meeting,~~ the Secretary of State suggested that it would be helpful in these deliberations to put yourselves in the position of the Soviets; *to take a look at the competition.* That is, to consider the Kremlin's future capabilities and possible courses of action in their trade and aid offensive in the light of their total resources and the competing demands for these resources.

I thought it might be prudent in our forward look to limit ourselves to the next seven years. The reason for this is that next Soviet planning period covers the years 1959 to 1965, and while the Kremlin has not yet announced the details of this plan, enough key commodity goals have been released so that we can be fairly confident about its general shape and proportions.

The Soviet's trade and aid program is another competitor for <sup>scarce</sup> resources within their country. It can only be put in perspective by considering the totality of demands against goods and services produced.

What are these demands?

First, there is the necessity of increasing the standards of living of the Soviet people. There are two key reasons for this - to secure the cooperation of the workers so that productivity can continue to <sup>particularly in a period of labor shortage,</sup> increase, and to remove the stigma of poverty which attaches to Communism and thereby increase its attractiveness abroad.

*Stalin solved problems by squeezing consumers. He's spent on bombs, rockets, etc. instead of welfare program as capitalism.*

The key Soviet programs in the consumer field are those in housing and agriculture. To pay increased attention to these neglected sectors means that investment must be diverted from producer goods industries. This in turn means a somewhat slower future rate of industrial growth than we saw during the 1950-55 years - probably on the order of 8-9 per cent a year compared to past rates of 10-11 per cent.

Total investment, however, must remain high, because growth rates must remain substantially above those in the U.S. The reason for this is the often repeated boast of the Kremlin leaders concerning the catching up with and then surpassing the United States in production. The fulfillment of this ambition, they believe, is necessary to prove the superiority of the Communist system over the free enterprise system.

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Finally, there is the need to maintain, and indeed to increase, military expenditures. The concentration of effort on research and development and on the production of advanced design weapon systems, as we all know, costs a great deal of money.

Let's take a look at how these competing demands are resolved today.

Chart - Comparison of US & USSR GNP

- 1) In absolute terms, USSR GNP about 41% of US. Consumption, however, about 35% of US. Investment about 60%, but investment in mining, manufacturing and electric power was 80-85% of our own.

*\$ 180 billion in 1958*

2) Military expenditures, including foreign aid about equal. Total foreign aid program probably best considered together with defense, as in US, under the

combined heading of, "national security." *Soviet foreign aid today only equal to a little over 2% of defense expenditures, and is largely to the Eu States.*

3) Looking forward to 1965, we have projected forward a growth rate of 6.5% a year. We ~~have~~ <sup>can then</sup> divided up the pie, the \$300 billion GNP, between investment, defense

and consumption by projecting forward recent trends. *My own expectations would be that according to the proportions going to defense and consumption will be decreased, and that to investment increased.*

*would mean about \$66 billion available for nat'l security purposes by Soviets.*

Main point is that Soviet aid program, which last year probably ~~cost~~ <sup>less than</sup> \$1 billion in actual flows to Satellites and underdeveloped countries, could be increased several fold by 1965 without doing violence to other national objectives - to overall economic growth

or to the continued moderate improvement in living standards, *or to the maintaining of a formidable military posture.*

We might turn now to consider briefly what the output of some key commodities could be by 1965.

*Annual growth about \$10 billion a year. Provides flexibility.*

#### Chart - USSR Output of Selected Commodities

*the trend of output of such commodities as*  
~~Main point~~ In considering steel, cement, petroleum, aluminum, machine tools, tractors and trucks, *it is clear that* ~~to that~~ the producers goods output of the Soviet Union by 1965 will be much closer to US producers goods output than it is today.

While overall GNP may be only about half that of the US in 1965, by that time the output of producers goods may be three quarters that of ours. And, of course, what the underdeveloped countries want is producers goods. *China alone can - just about everything an underdeveloped country could want.*

In addition to producers goods, of course, there is the demand for technical assistance, for engineers and technicians to train people and to set up and place in initial operation the plants and equipment going into the industrialization program of underdeveloped areas.

Chart - Increase in Soviet Engineers and Technicians

1) USSR has today far more engineers than does US - 700,000 vs 480,000. By 1965, engineers expected to increase to 1,300,000.

2) Only few thousand of these out of USSR today. Clear, however, that the availability of engineers and technicians is not going to be a bind.

Having reviewed briefly the resources available for the trade and aid offensive, we can now consider the possible <sup>level</sup> ~~pattern~~ of Soviet exports by 1965. ~~First, however, it would be useful to review the motivations of the USSR because this is the key to estimation.~~

Of total USSR exports in 1957, about 24% went to the free world, and most of these exports were sent to Western Europe. They were sent in payment for imports of machinery and equipment needed by the Soviets to increase their own output. Trade with the underdeveloped areas then, is quite small in relation to total Soviet <sup>4</sup> Trade.

which the projection for 1965 expands considerably. Food items have comprised the bulk of trade in this category to date, another item available in underdeveloped areas.

The USSR has long been a net importer of machinery and equipment although its own domestic capabilities for producing these items have grown enormously. The projected import surplus in 1965 reflects the pressures which current economic plans will place on the Soviet machinery and equipment industries. Thus imports from the West (principally prototypes and complete plant facilities) will be increased to facilitate the accomplishment of planned goals. Meanwhile exports of Soviet machinery items will continue to expand, to satisfy the demands of underdeveloped countries both within and without the Bloc. Moreover, it is not inconceivable that the USSR will try to develop, partly for the purpose of internal security, a net export position in this category in order to build and maintain capacity beyond the requirements of the domestic economy. Such an effort would probably be built on the export of mass produced general purpose machine tools, primary processing equipment, and agricultural, construction and mining machinery.

To summarize, the principal factors determining the size and nature of the USSR's foreign economic offensive will be: (1) the *Consumption - investment - defense - foreign aid* overall policy decisions of the Kremlin leaders; (2) the choices of Bloc leaders with respect to the allocation of economic resources; (3) the attitudes in underdeveloped countries toward the commitments and risks implied in large-scale economic dealings with the USSR

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and other Bloc members; (4) the ability of the recipient states to absorb new credits; and (5) the alternatives offered these countries by the West.

In seeking areas in which to extend its foreign economic program, the USSR will select those underdeveloped countries in the Free World which appear most vulnerable economically or politically and which offer the prospect of important political gains. It will select targets of opportunity as they arise from changing political, economic and military relationships in the Free World such as offered by the recent coup in Iraq and the turmoil in Lebanon.

The long-run threat posed by the Bloc economic offensive will increase. The offensive will operate in a context in which the steady growth of the economic, military, and scientific strength of the USSR will make it a more formidable opponent of the West in the underdeveloped countries. Soviet trade, credits, and technical assistance will support the Communist image of progress and power, and provide opportunities for the propagation of Communist doctrine and the idea of rapid industrialization through the Soviet-type organization of society. Unless effectively countered, these psychological and economic inroads, in combination with other Soviet policies and accomplishments, will continue to erode the Western position in the underdeveloped world.